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Canadian Battle Over Sharing East Coast Reserves Expands

International conflict over natural gas produced offshore of Nova Scotia has spread to a new front, with Canadian demands for rights of first refusal clouding the outlook for the 80% capacity expansion proposed by Maritimes & Northeast Pipeline.

On the heels of hearings in Fredericton on an appeal by the New Brunswick government for the National Energy Board (NEB) to intervene in exports to the United States, the demand spilled over into the agency's review of the C$190.8 million (US$123 million) pipeline project. The contest in turn affects EnCana Corp.'s C$1.1-billion (US$710-million) Deep Panuke project offshore of Nova Scotia, which relies on M&NP's expansion program to carry all the proposed new gas production of 400 MMcf/d.

The NEB set a date of Sept. 30 to start hearings on the M&NP application in Saint John. In advance written testimony, New Brunswick Power Corp. and Maritime Electric Co. staked Canadian claims to the new production, and urged the board to stop the pipeline and EnCana from dedicating it to markets in the northeastern U.S.

The utility companies were echoed by a civic economic development agency representing a depressed region of eastern Quebec and northern New Brunswick, La comite d'energie de la Vallee St.-Jean et de l'Est du Quebec. The French-speaking group urged the NEB to respect an agreement between the Quebec and New Brunswick governments to give the region a boost by supporting a proposal from Enbridge Inc. and Gaz Metropolitain for a 517 kilometer (320 mile), C$595 million (US$384 million) gas pipeline that would link the area to M&NP, the Sable Offshore Energy Project and Deep Panuke.

The conflict broke out after the Canadian pipeline proposal was defeated last winter by M&NP, SOEP, the Canadian Association of Petroleum Producers and the Nova Scotia government. All insist that the northeastern U.S. has to be the sales "anchor" for exploration and development offshore Nova Scotia because eastern Canadian markets are new, small and need time to evolve.

New Brunswick Power and Maritime Electric say the dedication of Nova Scotia gas to the northeastern U.S. has become so complete that it denies eastern Canadian markets a chance to evolve. Maritime Electric said current trading arrangements will make it pay a 20% premium to contract for Nova Scotia supplies, effectively killing its plans to introduce natural gas service to Prince Edward Island. The premium would have to be paid to make selling offshore gas in Canada as profitable for SOEP and EnCana as dedicating production to exports to the U.S.

The would-be Canadian buyers said East Coast producers are bound to look for the premium on domestic sales as compensation for reductions in pipeline tolls they will gain if the M&NP project goes ahead as an export expansion. M&NP forecasts that the savings will result from the nature of the project as a compressor expansion, meaning that it spreads costs of the two-year-old pipeline thinner over increased delivery volumes with low-cost additions of motor power.

New Brunswick Power said it is being denied access to gas it needs for new generating stations to keep up with industrial demand and possibly replace an aging atomic plant, the Point Lepreau Nuclear Station. Both utility companies requested a variation on the theme sounded earlier by the New Brunswick government, which urged the NEB to make the industry post notices of all export plans and guarantee Canadians chances to buy the gas before closing deals in the U.S.

In the M&NP case, the board is being asked to withhold approval of the pipeline expansion until EnCana lets eastern Canadians contract for as much production from Deep Panuke as they want for their gas service and electricity generation plans. EnCana has repeatedly told the NEB it is willing to discuss deals with Canadians, but is not yet ready to make commitments for production scheduled to start in 2005.

At the same time, M&NP showed it is feeling heat from both sides of the international border. While the Canadian pressure for Deep Panuke supplies potentially affects the size of the pipeline expansion project, a rival proposal from the U.S. is also developing. M&NP made a strongly-worded request for the NEB to deny intervenor status in its pipeline expansion case to Canadian Superior Energy Inc.

M&NP complained that the Calgary firm represents competition rather than genuine interest in the project as the drilling partner in an East Coast development team with El Paso Oil and Gas Canada Inc. M&NP pointed out that this Halifax arm of a Houston pipeline giant proposes an entirely new sea-floor pipeline to deliver Nova Scotia gas directly to New York City through the 1,200-kilometer (750 mile), 1 Bcf/d Blue Atlantic Transmission System currently projected to cost US$1.6-$1.8 billion (see NGI, Dec. 17, 2001). The NEB let Canadian Superior intervene, saying "no party will be prejudiced."

Canadian opponents of exporting Nova Scotia gas insist they are only trying to enforce promises made when a panel of federal and provincial authorities approved SOEP and M&NP five years ago. In the pipeline expansion case, La comite d'energie points to parts of the approval indicating that the agencies relied on assurances that Canadians would be let in on the action. The ruling predicted that for Canada, "In the long run, the main benefits will likely be access to gas to improve the competitiveness of existing industries, a new energy source and the creation of new industries."

Among veterans of the Canadian gas and regulatory scene, the East Coast case is rated as exceptionally sensitive, with potential to generate legal and political appeals written all over it. The NEB has telegraphed no intentions. But while the board has gone out of its way to ensure Atlantic Canadians due process by conducting the case in their cities, it also sent producers a sign at the outset that the matter remains far from decided, by turning down demands to halt the M&NP proceeding until a decision could be made on the demands for interference with exports.
